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UNITED STATES OF AMERICA  
DEPARTMENT OF TRANSPORTATION  
OFFICE OF THE SECRETARY  
WASHINGTON, D.C.

Issued by the Department of Transportation  
on the 8th day of May, 2002

Essential Air Service at:

CEDAR CITY, UTAH

Under 49 U.S.C. 41731 *et seq.*

Docket OST 97-2706-19

**ORDER TENTATIVELY RESELECTING CARRIER**

**SUMMARY**

By this order we are tentatively reselecting SkyWest Airlines, Inc. (SkyWest) to provide two nonstop round trips a day between Cedar City, Utah, and Salt Lake City beginning within 60 days of the service date of this order, at an annual subsidy rate of \$836,102 with the second year to be negotiated. (See Appendix A for a map.) For the period October 1, 2001, until the new subsidy rate begins, we will compensate SkyWest at the agreed rate of \$1,056,415 for three round trips a day.

**BACKGROUND**

SkyWest has provided subsidized service to Cedar City for many years. Order 2000-3-15 last selected SkyWest to serve Cedar City and set a final rate through December 31, 2001, in the amount of \$679,450 annually, for three round trips per day with 30-seat Embraer Brasilia aircraft. The service we are authorizing subsidy for in this order reflects reduced service of 12 nonstop round trips a week.

Under our normal procedures when nearing the end of a rate term, we contact the incumbent carrier to determine whether it is interested in continuing service and whether it will continue to require subsidy. If the carrier wishes to continue service with subsidy, we usually negotiate a new subsidy rate with the carrier, issue an order tentatively reselecting the carrier for a new rate term at the agreed rate, and direct other parties to show cause why we should not finalize our tentative decision. Other carriers wishing to submit competing proposals are invited to do so in response to the show-cause order; if any such proposals are filed, we process them as a competitive case. Consistent with this practice, we invited SkyWest to submit a proposal for continuation of essential air service at Cedar City.

### **CARRIER SERVICE PROPOSAL**

In response to our request SkyWest submitted and negotiated two service options. (See Appendix B to this order for a summary of the subsidy computation for SkyWest.) Under Option A, SkyWest's proposed service would be the same as the historical service level, namely 18 nonstop round trips a week to Salt Lake City with 30-seat Brasilia aircraft. Based on informal rate discussions held between the carrier and the Department staff, an annual subsidy rate of \$1,056,415 was agreed upon for the period beginning October 1, 2001, with the following year to be negotiated. Under Option B, SkyWest would provide a total of 12 nonstop round trips a week to Salt Lake City with Brasilias, and would require \$836,102 annually for the service, with the second year to be negotiated.

### **COMMUNITY COMMENT**

By letter dated February 13, 2002, we requested community comments regarding these two options, and the community replied on March 1, 2002. The community notes that since 1997 passenger traffic had increased significantly through September 11, 2001. While the community acknowledges that maintaining three round trips a day would require additional subsidy, it states that the increase is due to the terrorist attacks of September 11. Further, the community goes on to state that rather than reduce the number of daily flights, it deserves a fourth daily round trip, and that the traffic would respond to the additional service.

### **EAS DETERMINATION**

Cedar City's EAS determination was most recently set by Order 89-4-59, and requires two nonstop or one-stop round trips per day to Salt Lake City, with a minimum of 25 seats each day in each direction.

### **TENTATIVE RESELECTION**

We will tentatively reselect SkyWest to provide essential air service at Cedar City as detailed in Appendix C, for an additional two-year period, for two nonstop round trips a day. The level of service is less than previously provided by SkyWest, yet the level of subsidy for even two round trips a day is significantly higher than the old three-round-trip rate because of reduced revenue. Order 2000-3-15 projected \$1,186,842 total revenue at Cedar City, while, based on six months of actual results since September 11, SkyWest now projects 30% less.

The community is correct to note that the increase in subsidy is a result of the terrorist attacks, and that the community was showing significant traffic growth until that time. However, the two-round-trip-a-day service option will fully meet Cedar City's EAS definition. Further, it will accommodate the community's historical traffic at a 28% load factor and thus provide sufficient capacity for traffic recovery from the terrorist attacks.

Because SkyWest has been providing three round trips a day, we will compensate it at the agreed-to level of \$1,056,415 for up to 60 days after the service date of this order. Also, since SkyWest's contract under Order 2000-3-15 expired on December 31, 2001, the new contract would normally be effective January 1, 2002. However, in response to the terrorist attacks and the resulting increases in costs and decreases in revenues, we issued Order 2002-2-13 granting rate relief on a

program-wide basis, retroactive to October 1. (See that Order for a full explanation.) Therefore, consistent with Order 2002-2-13, we will make this three-round-trip rate effective retroactive to October 1, 2001.

#### **OBJECTIONS OR PROPOSALS**

As is our usual program practice, we will allow interested parties 20 days to object to our decision and/or to file competing proposals. If no timely objections or competing proposals are filed this order will automatically become final. We expect persons objecting to our tentative decision to support their objections with relevant and material facts. We will not entertain general, vague, or unsupported objections.

Carriers interested in filing competing proposals, with or without subsidy requests, should file them within the 20-day period set for objections. At the end of that period, our staff will docket any competing proposals, thereby making them public, and direct each carrier to serve a copy of its proposal on the civic parties and other applicants. Each applicant, including the incumbent, will then have an opportunity to finalize its proposal in rate discussions with Department staff before we seek final community comments. We will give full consideration to all proposals that are timely filed.

We request proposals that would provide at least two nonstop or one-stop round trips a day between Cedar City and Salt Lake City, with twin-engine aircraft operated by two pilots. We will also entertain proposals to other hubs that provide access to the national air transportation system in order to give the Department and community as broad an array of proposals as possible from which to choose. Of course, as always, we will formally solicit the community's views on any service options we receive before making a long-term carrier selection decision.

#### **SERVICE HISTORY AND TRAFFIC DATA**

SkyWest Airlines has served Cedar City for a number of years. In order to assist potential applicant carriers in making their passenger and revenue forecasts, we have included historical passenger levels for the last several years in Appendix D.

#### **PROCEDURES FOR FILING PROPOSALS**

For interested air carriers that are not familiar with our procedures and recommended form for supplying the necessary information, we have prepared two explanatory documents that we will make available upon request. The first describes the process for handling carrier replacement cases under 49 U.S.C. 41734(f) and discusses in detail the process of seeking proposals, conducting financial and operational audits of the applicant carriers and selecting a replacement carrier. The second is an evidence request containing an explanatory statement and a copy of section 14 CFR 204.4 of the Department's regulations which deals with the information required of all applicants for authority to provide basic essential air service, and provides schedules giving our recommended form for submitting data required for

determining the financial and operational ability of applicants to provide dependable air service.<sup>1</sup>

### **COMMUNITY AND STATE COMMENTS**

If we receive competing proposals, the community and State are welcome to submit comments on the proposals at any time.<sup>2</sup> Early in the proceeding, comments on the perceived strengths and weaknesses of the proposals would be particularly helpful to the Department, although the civic parties may also express a preference for a particular carrier or proposal option at that time, if they choose. In any event, after we conclude rate conferences with all applicants, we would provide a summary of the conference results to the civic parties and ask them to file their final comments.<sup>3</sup>

### **OTHER CARRIER REQUIREMENTS**

The Department is responsible for implementing various Federal statutes governing lobbying activities, drug-free workplaces, and nondiscrimination.<sup>4</sup> Consequently, all carriers receiving Federal subsidy to support essential air service must certify that they are in compliance with Department regulations regarding drug-free workplaces and nondiscrimination, and those carriers whose subsidies exceed \$100,000 over the life of the rate term must also certify that they are in compliance with regulations governing lobbying activities. All carriers that plan to submit proposals involving subsidy should submit the required certifications along with their proposals. Interested carriers requiring more detailed information regarding these requirements, as well as copies of the certifications, should contact the Office of Aviation Analysis at (202) 366-1053. The Department is prohibited from paying subsidy to carriers that do not submit these documents.

### **CARRIER FITNESS**

49 U.S.C. 41737(b) and 41738 require that we find an air carrier fit, willing and able to provide reliable service before we may compensate it for essential air service. The Department has routinely monitored the carrier's continuing fitness. The Federal Aviation Administration has advised us that the carrier is conducting its operations in accordance with

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<sup>1</sup> Copies of these documents can be obtained from: EAS & Domestic Analysis Division, X-53, Office of Aviation Analysis, Room 6401, Department of Transportation, 400 7th Street, S.W., Washington, DC 20590. Telephone requests for these documents are accepted at (202) 366-1053.

<sup>2</sup> Civic parties should file an original and five copies of their comments in Docket OST-97-2706. Comments should be addressed to: Documentary Services Division, Docket Section, SVC 124, Office of the Secretary, U.S. Department of Transportation, Room PL 401, 400 Seventh Street, S.W., Washington D.C. 20590.

<sup>3</sup> In cases where a carrier proposes to provide full essential air service without subsidy and we determine that service can be reliably provided without such compensation, we do not normally hold rate conferences. Instead, we rely on the carrier's subsidy-free service.

<sup>4</sup> The regulations applicable to these areas are: (1) 49 CFR Part 20 – New restrictions on lobbying; (2) 49 CFR Part 21 – Nondiscrimination in federally-assisted programs of the Department of Transportation – Effectuation of title VI of the Civil Rights Act of 1964; 49 CFR Part 27 – Nondiscrimination on the basis of disability in programs and activities receiving or benefiting from Federal financial assistance; and 14 CFR Part 382 – Nondiscrimination on the basis of disability in air travel; and (3) 49 CFR Part 29 – Government-wide debarment and suspension (non-procurement) and government-wide requirements for drug-free workplace (grants).

its regulations, and knows of no reason why we should not find that SkyWest remains fit. SkyWest has experience providing essential air service at Cedar City, and, based on its operating record, we find that the carrier continues to be fit to provide the essential air transportation at issue in this case.

This order is issued under authority delegated in 49 CFR 1.56a(f).

**ACCORDINGLY,**

1. The Department tentatively reselects SkyWest Airlines, Inc., to provide essential air service at Cedar City, Utah;
2. The Department sets the final rate of compensation for SkyWest Airlines, Inc., for the provision of essential air service at Cedar City, Utah, for the period from October 1, 2001, for up to 60 days after the service date of this order, at \$1,056,415 per year, as described in Appendix C-1, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceilings and shall be determined by multiplying the subsidy-eligible departures from and arrivals at the hub completed during the month by \$575.70;<sup>5</sup>
3. The Department sets the final rate of compensation for SkyWest Airlines, Inc., for the provision of essential air service at Cedar City, Utah, for the period beginning within 60 days of the service date of this order, as described in Appendix C-2, at \$836,102 per year, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceilings and shall be determined by multiplying the subsidy-eligible departures from and arrivals at the hub completed during the month by \$683.65;<sup>6</sup>
4. These rates are in lieu of, and not in addition to those set by Orders 99-11-17 and 2002-2-13;
5. In the event objections or competing proposals are received, the rate in ordering paragraph (2) above will be effective as a final rate on October 1, 2001, until further Department action;
6. We find that SkyWest Airlines, Inc., continues to be fit, willing, and able to operate as a certificated air carrier and is capable of providing reliable air service at Cedar City, Utah;
7. We request that carriers interested in providing essential air service at Cedar City, Utah, submit their proposals, with or without requests for subsidy, within 20 days of the service date of this order. An original and five copies of the proposal should be sent to the EAS and Domestic Analysis Division, X-53, Office of Aviation Analysis, Room 6401, Department of

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<sup>5</sup> See Appendix C-1 for calculation.

<sup>6</sup> See Appendix C-2 for calculation.

Transportation, 400 7<sup>th</sup> Street, S.W., Washington, D.C. 20590, with the title: "Proposal to Provide Essential Air Service at Cedar City, Utah, Docket OST-1997-2706; <sup>7</sup>

8. We direct SkyWest Airlines, Inc., to retain all books, records, and other source and summary documentation to support claims for payment and to preserve and maintain such documentation in a manner that readily permits the audit and examination by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order;

9. This docket will remain open until further order of the Department; and

10. We will serve a copy of this order on the Mayor and airport manager of Cedar City, Utah, the Utah Department of Transportation, SkyWest Airlines, Inc., and the carriers listed in Appendix E.

By:

**READ C. VAN DE WATER**  
Assistant Secretary for Aviation  
and International Affairs

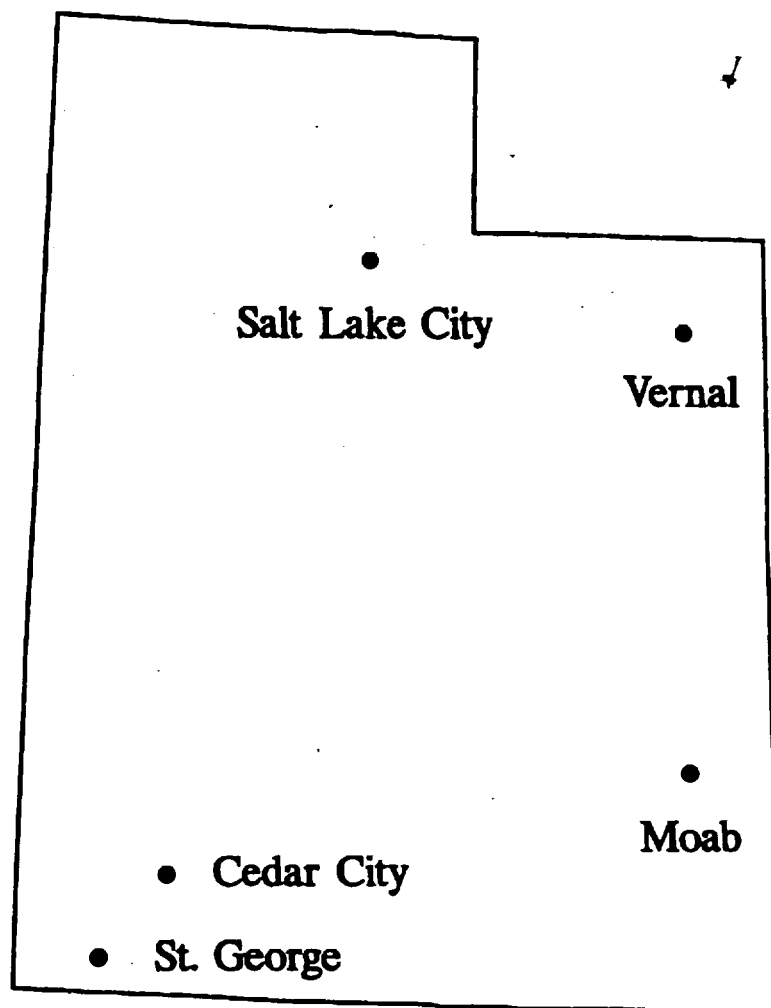
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*An electronic version of this document is available on the World Wide Web  
[http://dms.dot.gov/reports/reports\\_aviation.asp](http://dms.dot.gov/reports/reports_aviation.asp)*

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<sup>7</sup> After serving a copy of its proposal on the civic officials of Cedar City, the community of Cedar City, and each of the other applicants, each applicant must then file a certification of service with the Department's Docket Operations and Media Management Division, SVC-124. Questions regarding filings in response to this order may be directed to Kevin Adams at (202) 366-1047.

## Appendix A



### Mileages

CDC-SLC	221
VEL-SLC	131
CNY-SLC	183
SGU-SLC	269

## Appendix B

## Essential Air Service to be Provided at Cedar City, Utah, Dockets 2706

	<u>Option 1</u>	<u>Option 2</u>
Routing	CDC-SLC	CDC-SLC
Number of trips per week	18	12
Average block time	63	63
Annual trips at 98 %	1,835	1,223
Annual Block Hours	1,927	1,284
Passengers	15,832	9,923
Stage Length	221	221
RPMs	3,498,872	2,192,983
Trips	1,835	1,223
Stage length	221	221
Seats	30	30
ASMs	12,166,050	8,108,490
Passengers	15,832 1/	9,923
Average Fare	\$52.52 2/	\$52.52
Revenue	\$831,497	\$521,156
Freight @ .6%	\$4,989	\$3,127
Total Revenue	\$836,486	\$524,283
Pilot @ \$132.47/hr.	\$255,270	\$170,091
Fuel @ \$88.44/hr.	\$170,424	\$113,557
Other @ \$39.70/hr.	\$76,502	\$50,975
Maintenance @ \$167.19/hr.	\$322,175	\$214,672
Depreciation./Rent	\$294,658	\$294,658 4/
Direct Expenses	\$1,119,029	\$843,953
Flt. Att. Rel. @ \$21.65/hr.	\$41,720	\$27,799
RPM Rel. @ \$.0234089/RPM	\$81,905	\$51,335
Departure Rel. @ \$161.78/dep.	\$296,866	\$197,857
ASM Rel. @ \$.0173713	\$211,340	\$140,855
Special Non-Historical Costs	\$51,903 3/	\$33,806 3/
	\$683,734	\$451,652
Total Operating Expense	\$1,802,763	\$1,295,605
5% profit margin	\$90,138	\$64,780
Total Economic Cost	\$1,892,901	\$1,360,385
Annual Subsidy @ 98 %	\$1,056,415	\$836,102

1/ [(1,898 + 1,665) quarterly actual + 1,665/2,037(post attack ratio times 3rd qtr. 2000 and 2nd qtr. 2001, doubled.

2/ \$70.03 average fare for YE 9/30/01, multiplied by 75 % to reflect terrorist impact.

3/ \$1.25 liability insurance per pax.; \$7.50 war risk insurance per departure;

\$10/dep. additional screening costs.

4/ No other use for the Brasilia with only two round trips per day.



**SkyWest Airlines, Inc., Essential Air Service to be Provided to Cedar City, Utah,  
Docket OST-97-2706**

Effective Period: October 1, 2001, until inauguration of reduced service. <sup>1</sup>

Scheduled Service: 18 nonstop round trips each week to Salt Lake City.

Aircraft: Embraer Brasilia.

Rate per Departure/Arrival: \$575.70 <sup>2</sup>

Weekly Ceiling: \$20,725.20 <sup>3</sup>

Note: The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

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<sup>1</sup> We expect SkyWest to inaugurate the new service pattern within 60 days of the service date of this order. If SkyWest does not do so, the two-round trip rate would become effective on the 61<sup>st</sup> day.

<sup>2</sup> Annual compensation of \$1,056,415 divided by the estimated annual completed departures and arrivals at a 98 percent completion factor at each community:  
36 departures/arrivals x 52 weeks x .98 = 1,835 total.

<sup>3</sup> Subsidy rate per arrival/departure at Salt Lake City of \$575.70 multiplied by 36 subsidy-eligible arrivals and departures each week.

**SkyWest Airlines, Inc., Essential Air Service to be Provided to Cedar City, Utah,  
Docket OST-97-2706**

Effective Period: Inauguration of service, for a one-year period, second year to be negotiated.<sup>1</sup>

Scheduled Service: 12 nonstop round trips each week to Salt Lake City.

Aircraft: Embraer Brasilia.

Rate per Departure/Arrival: \$683.65<sup>2</sup>

Weekly Ceiling: \$16,407.60<sup>3</sup>

Note: The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

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<sup>1</sup> We expect SkyWest to inaugurate the new service pattern within 60 days of the service date of this order.

<sup>2</sup> Annual compensation of \$836,102 divided by the estimated annual completed departures and arrivals at a 98 percent completion factor:

24 departures/arrivals x 52 weeks x .98 = 1,223 total.

<sup>3</sup> Subsidy rate per arrival/departure at Salt Lake City of \$683.65 multiplied by 24 subsidy-eligible flights each week.

Appendix D

Historical Enplanements at Cedar City, Utah

1999 Q1	1,681
Q2	2,040
Q3	2,268
<u>Q4</u>	<u>2,049</u>
Total	8,038
2000 Q1	1,936
Q2	2,268
Q3	2,661
<u>Q4</u>	<u>2,294</u>
Total	9,159
2001 Q1	2,037
Q2	2,665
Q3	2,554
<u>Q4</u>	<u>1,898</u>
Total	9,154
2002 Q1	1,665

Source: SkyWest Schedule T-1

## SERVICE LIST FOR THE STATE OF UTAH

Air L.A., Inc.  
Air Nevada Airlines, Inc.  
Air Vegas, Inc.  
Alpine Air Express  
Alpine Aviation, Inc.  
America Aviation  
Amerijet International, Inc.  
Arizona Airways, Inc.  
Arizona Pacific Airlines, Inc.  
Aspen Airways, Inc.  
Aviation Services West, Inc.  
Barken International, Inc.  
Big Sky Transportation Co.  
Blue Ridge Airlines  
Delta Connection  
Empire Airlines, Inc.  
Grand Airways, Inc.  
Grand Canyon Airlines, Inc.  
Martin Aviation, Inc.  
Mesa Airlines, Inc.  
Metroflight, Inc.  
Midway Airlines, Inc.  
Midwest Express Airlines, Inc.  
Northern Tier Airlines, Inc.  
Northwest Airlink  
Pacific Air West, Inc.  
Redtail Aviation  
Rio Grande Air  
Rocky Mountain Helicopters, Inc.  
Scenic Airlines, Inc.  
Sierra Nevada Airways, Inc.  
Skywest Airlines, Inc.  
Westward Airways, Inc.  
Wings West Airlines, Inc.

Ken Bannon  
Doug Franklin  
E.B. Freeman  
Ben Harrison  
A. Edward Jenner  
William Kostel  
Gene Mallette  
Lee Mason  
John McFarlane  
Andy Pike  
Richard A. Raymer  
Gary L. White  
Tim Woldridge